The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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Consumer Spending Drops . . .

Although many retailers expected the recent income tax cut to boost their sales, the hoped-for gain has not yet materialized. Any new demand arising from the relatively small increase in individual take-home pay has been more than offset by the rapidly weakening economy, the deteriorating employment situation and renewed consumer pessimism. As a result, sales at the nation's retail establishments plunged by 1.5 per cent in October, month-over-month—before adjustment for inflation—on top of a 0.1 per cent decline in September.

With only one exception this was the largest monthly drop since spring, 1980. It was paced by a 5.5 per cent decrease in durable goods sales—mainly autos, which plunged by 8.7 per cent, month-over-month. The picture worsens even further when the effect of rising prices is subtracted. Then, the actual volume of products sold in October declined by close to 2½ per cent from the already depressed level in September.

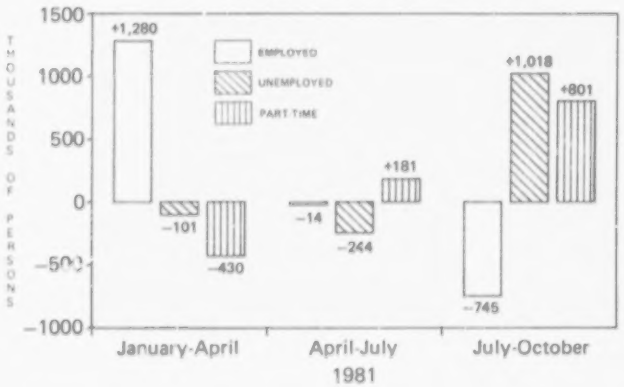
"Real" retail sales have been sluggish for more than two years. In October, they were about four per cent below the June level and almost five per cent lower than they were eight months ago. Importantly, a continuation of this trend through the remainder of the Christmas selling season would have a devastating impact on many retailers' full year 1981 results, since a substantial proportion of their yearly sales and earnings occurs during this time period.

. . . As Buyers' Spirits Sag . . .

Spending by consumers is usually influenced to a large extent by their near-term outlook on the economy in general and employment and income prospects in particular. Unfortunately, peoples' current attitudes do not seem to be encouraging. The consumer confidence index compiled by the Conference Board has now sagged for two months in a row. It dropped by almost four points in October, on top of a sizable 9.3 point slide in September.

More and more people think that business conditions are poor and are very concerned about their jobs. During the last poll the pessimists outnumbered the optimists by a large margin, in sharp contrast to the results observed in the summer months, when optimists outnumbered the pessimists by a margin of two to one. What is more, in October, the buying plans index, which measures consumers' intentions to purchase automobiles, homes, large appliances or home furnishings in the next six months, declined by 4.4 points month-over-month, after a more than seven point retreat during the previous month.

CHANGES IN THE NUMBER OF PERSONS EMPLOYED, UNEMPLOYED, AND EMPLOYED PART TIME FOR ECONOMIC REASONS



Buyers' concerns about their future ability to pay were evident in September as they attempted to reduce their outstanding debts. Although installment debt rose by $2.82 billion in September—only slightly less than the previous month's increase of $2.86 billion—it was almost entirely due to the expansion in automobile credit. As auto sales soared, boosted by extensive rebates and subsidies, automobile debt surged by $2.28 billion, compared with an average growth of slightly more than $1.1 billion in the previous three months. However, automobile sales have declined significantly since September, suggesting that the increase in total outstanding debt in October was considerably smaller.

. . . They Shy Away From Credit . . .

Without auto loans, the picture changes significantly. Most important, revolving credit, which includes credit cards at retailers, gasoline companies and commercial banks, expanded at a much slower

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pace in September than during the previous month, and at less than half the average pace registered in the previous three months. Outstanding credit for mobile homes, although still posting good-sized gains, also grew at a slightly slower rate than in the month before.

To be sure, the rate of debt accumulation in the past 12 months has been very low compared with levels prevailing before the 1980 economic decline. For example, during the past year, the average monthly addition has been about $1.9 billion, while during the 12 months preceding the 1980 downturn, the average monthly gain was more than 70 per cent higher. It seems that people have become reluctant to finance their purchases by increased borrowing when faced with uncertainties about the future and lofty finance charges. They have become less willing to acquire new debt while in the past six months, they have been using a decreasing proportion of disposable income to repay existing obligations.

The ratio of debt liquidation to disposable income has dropped from 16.5 per cent in February to 15.5 per cent in September. Furthermore, consumers have been paying for their purchases more with cash rather than financing them. The ratio of debt extensions to retail sales has been trending downward since March—falling from 34.0 per cent to 33.1 per cent in September. This compares with an average of almost 37 per cent of purchases bought on credit during the two-year period ending in 1979.

Despite this cautious attitude on the part of most

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 11/4/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	132.661	+ .558	+ 2.536
Loans to Depository Inst.	1.237	+ .050	— .641
Float	2.516	— .515	— .522
Total Reserve Bank Credit	146.270	+ .592	+ 4.383
Treasury Deposits with Federal Reserve Banks	3.410	+ .341	+ 1.119
Currency Outside Banks	123.226	— .165	+ 4.120
Member Bank Reserves:			
Required	40.521	— .104	— 1.511
Excess (Deficiency)	.298	+ .039	— .269
Total Reserves Held	40.819	— .065	— 1.780
Net Borrowed Reserves	.805	+ .024	— .434
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	91.154	+ .672	+ 5.304

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1-B	433.2	+ 2.9‡	+ 3.8‡
M2 (October '81)	1,800.3	+ 9.1	+ 8.8
M3 (October '81)	2,143.5	+ 9.5	+ 11.2
L (July '81)	2,521.3	+ 10.4	+ 11.3

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 11/13/81	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	10.65%	11.00%	10.85%
* Federal Agencies	11.25	12.20	12.00
* Project Notes—Taxfree (46% Taxable Equivalent)	11.85	12.22	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	12.45	12.65	13.90

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	12.75%	Dec.	12.55%
15- 29 days	12.50	Jan.	12.45
30- 59 days	12.38	Feb.	12.00
60- 89 days	12.00	Mar.	12.10
90-179 days	11.75	Apr.	12.10
180-239 days	11.75	May	11.90
240-270 days	11.75		

‡Industrial Paper—Prime			
30- 89 days	12.30%	†Federal Funds Effective Rate	13.05%
90-120 days	12.63		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'81	$ 2,947	$ 2,886	$ 2,637
Gross National Product (1972 Dollars)*	3rd Q'81	$ 1,508	$ 1,510	$ 1,472
Percent Change, Annual Rate	3rd Q'81	— 0.6%	— 1.6%	2.4%
Change in Consumer Prices (all urban consumers)*	Sept '81	14.4%	9.6%	12.0%
Change in Producer Prices*	Oct '81n	7.2%	2.4%	10.8%
Civilian Employment (Thousands of Persons)†	Oct '81	98,217	98,270	97,206
Unemployment as % of Civilian Labor Force†	Oct '81	8.0%	7.5%	7.6%
Personal Income*	Sept '81	$ 2,461	$ 2,441	$ 2,206
Leading Indicators Composite Index (1967=100)†	Sept '81	130.1	133.7	134.4
Industrial Production Index (1967=100) †	Oct '81n	149.5	151.8	146.6
Net Change in Consumer Installment Credit†	Sept '81	$ 2.82	$ 2.86	$ 1.06
U.S. Merchandise Trade Balance †	Sept '81	—$ 1.57	—$ 4.48	—$ 1.11
Plant and Equipment Expenditures*	4th Q'81	$332.69(a)	$322.88(a)	$299.58
Private Housing Starts (Thousands of Units)*	Sept '81	918	934	1,482
New Construction Expenditures*	Sept '81	$ 231.6	$ 232.6	$ 224.6
Total Business Inventories†	Sept '81n	$ 507.2	$ 502.5	$ 471.5
Total Business Sales†	Sept '81n	$ 354.2	$ 352.8	$ 327.8

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

consumers, there were many who found themselves in a precarious financial situation. During the 12 months ending in June, 1981, more than 450,000 personal bankruptcy cases were filed. This is 44 per cent higher than the previous year's total—and has no doubt risen since then. Although it has been aided to some extent by the implementation of a new and more liberalized bankruptcy law in October, 1979, the number of bankruptcies has more than doubled between the 12 month period ending in June, 1979 and the year ending in June, 1981.

. . . As Unemployment Shoots Up

By deteriorating sharply (see chart on first page), the employment picture has soured peoples' attitudes. The number of employed persons declined by a seasonally adjusted 745,000 between July and October, while unemployment rose by more than one million to 8.5 million—the highest number of unemployed workers since 1939. The unemployment rate jumped to eight per cent of the labor force, thus surpassing the peak of 7.6 per cent, recorded during the depths of the 1980 decline.

What is more, the unemployment situation is worse than it looks. There are many people who are now forced to work part-time for economic reasons. Their full-time workweek was reduced or they could not find full-time jobs. Over the past two months, their total has risen by 840,000 to a record five million in October. When these "partially" unemployed are added to the number of completely jobless, the total represents almost 13 per cent of the labor force—the highest percentage since May, 1975. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (10/28/81)	129,768	+ 142	+30,308
New York City (10/28/81)	32,232	+ 190	+ 8,330
Commercial Paper (10/28/81)	164,630	+ 901	+41,411

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/28/81)	187,404	– 938	+20,862
New York City (10/28/81)	54,266	– 789	+ 5,702

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/28/81)	455,996	– 4,195	+42,152
New York City (10/28/81)	107,395	– 5,035	+10,810

Financial Markets

	Friday 11/13/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	10.94%	– 1.69	– 2.48
180-Day Bills†	11.83	– 1.29	– 1.37
Longest Bills†	12.03	– 1.47	– .31
Recent Issues:			
15 1/2s 10/31/83	12.60	– 1.23	
15 7/8s 9/30/85	13.14	– .83	
14 1/4s 11/15/91 (When Issued)	13.13	– .77	
14s 11/15/11 (When Issued)	13.13	– .69	
Municipals:			
Bond Buyer–20 Bond Index* (11/12/81)	11.43%	– 1.01	+ 1.93
Blue List Total ($ Million)	$ 703	– $ 44	– $ 9
30-Day Visible Supply ($ Million)	$2,125	+ $250	– $ 536
Total	$2,828	+ $206	– $ 545
Corporates:			
Moody's Aa Composite (11/12/81)	14.98%	– .43	+ 1.72
30-Day Visible Supply ($ Million)	$7,453	+ $817	+ $3,575
Stocks:			
Dow-Jones Averages:			
Industrials	855.88	+ 3.43	– 130.47
Transportation	386.56	+ 3.39	– 5.40
Utilities	110.97	+ 3.44	– 5.79
65 Stocks	346.67	+ 3.49	– 30.24
Standard and Poor's 500 Stocks	121.67	– 1.00	– 15.48
N.Y.S.E. Composite Index	70.85	– .48	– 8.11
N.Y.S.E. Avg. Daily Vol. for Week (000's)	49,190	– 4,308	– 6,246

* 46% Taxable equivalent 21.17%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 11/13/81	Week Ago
Overnight	13.00%	14.00%
1 month	13.38	14.50
3 month	13.44	14.63
6 month	13.56	15.00
1 year	13.81	15.13
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.20%	15.25%
Long Term (7 to 15 yrs.)	14.85	15.35

FOREIGN EXCHANGE SPOT RATES New York Opening (11/13/81)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02692	37.15
Canada	.8420	1.1876
Denmark	.1402	7.1338
France	.1793	5.5763
Germany	.4517	2.2140
Italy	.0008450	1183.40
Japan	.004401	227.23
Mexico	.03891	25.70
Netherlands	.4136	2.4180
Switzerland	.5685	1.7590
U.K.	1.9038	.5253

At Manufacturers Hanover we don't put any one asset category on a pedestal.

Some fund managers have been known to favor one asset category over others. Not Manufacturers Hanover.

Our approach is, first of all, to use absolute rate of return objectives–derived directly from the precise characteristics of the retirement plan. So we can establish a realistic asset-mix policy that reflects your objectives and the investment future.

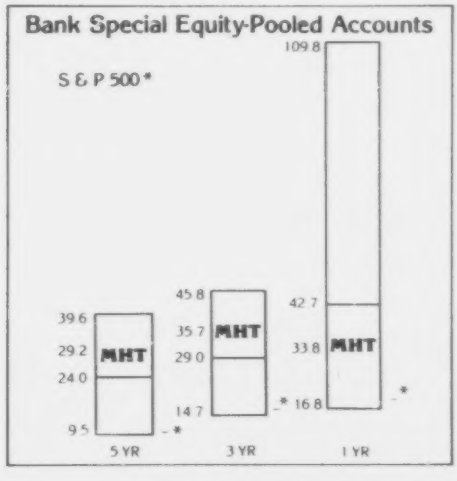
Investment vehicles are then chosen–but only after an intensive, objective analysis of the expected returns and the volatility associated with each possible asset category. Our lack of biases toward any particular type of asset enables us to deliver stable returns over the course of a market cycle.

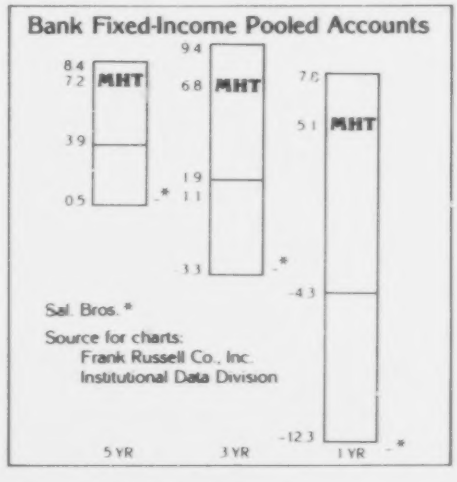
As the charts show, this approach generally puts us in the upper–quartile level of returns in both special equity-pooled accounts and fixed-income pooled accounts.

Most importantly, Manufacturers Hanover runs each investment management program the way any well-run business operates. Techniques like long-range planning, contingency planning, quality control, and performance measurement guide every step of the decision-making process.

To learn more details about the Manufacturers Hanover approach to investment management, contact William C. Petty III, Vice President, at the address below or at (212) 957-0760.

Annualized Rates of Return–Periods Ending June 30, 1981





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